

Message Text

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PAGE 01 STATE 043160

12

ORIGIN PM-03

INFO OCT-01 NEA-09 ISO-00 NSC-05 SP-02 SS-15 CIAE-00

INR-07 NSAE-00 DODE-00 TRSE-00 OMB-01 AID-05 IGA-01

L-02 H-01 MC-02 EB-07 /061 R

DRAFTED BY PM/SAS:DNIEMI:RG

APPROVED BY T:CEMAW

NEA/IAI - MR. SMITH

TREASURY - MR. MORELL

PM - MR. VEST

DOD/DSAA - MR. CAIN

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R 261649Z FEB 75

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

INFO USCINCEUR

C O N F I D E N T I A L STATE 043160

E.O. 11652: GDS

TAGS: MASS, IS

SUBJECT: FY 1975 FMS CREDIT FOR ISRAEL

1. THE DEPARTMENT HAS APPROVED THE PROVISION TO ISRAEL OF \$300 MILLION IN FY 75 FOREIGN MILITARY SALES CREDITS AND GUARANTIES. OF THIS TOTAL, \$100 MILLION WILL BE IN DIRECT CREDIT WITHOUT REPEAT WITHOUT REQUIREMENT FOR REPAYMENT, PURSUANT TO SECTION 31(B) OF THE FOREIGN MILITARY SALES ACT, AS AMENDED BY SECTION 45(A)(7) OF THE FOREIGN ASSISTANCE ACT OF 1974. HOWEVER, IT WILL BE NECESSARY TO ENTER INTO A FORMAL CREDIT AGREEMENT WITH ISRAEL COVERING THE \$100 MILLION.

2. THE REMAINING \$200 MILLION WILL BE COVERED BY A USG CREDIT GUARANTY. UNDER THE TERMS OF THE CREDIT JUSTIFICATION PERTAINING TO THE GUARANTY, A LOAN OF \$200 MILLION WILL BE REQUESTED FROM THE FEDERAL FINANCING BANK (FFB) WITH 10 YEAR REPAYMENT, INCLUDING A TWO-YEAR GRACE PERIOD. OTHER TERMS OF THE LOAN WILL BE DETERMINED BY THE FFB.

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PAGE 02 STATE 043160

THE DISBURSEMENT PERIOD WILL BE ONE YEAR FROM SIGNATURE

OF THE LOAN. THERE WILL BE A GUARANTY FEE, TO BE PAID BY THE GOI FROM ITS OWN RESOURCES, OF ONE-QUARTER OF ONE PERCENT OF THE PRINCIPAL AMOUNT.

3. IN RECENT LEGISLATION, CONGRESS AUTHORIZED THE FFB, AN ADJUNCT OF THE TREASURY DEPARTMENT, TO PROVIDE LOANS UNDER THE FMS GUARANTY PROGRAM. HERETOFORE, USG-GUARANTEED FMS

LOANS WERE OBTAINED DIRECTLY FROM COMMERCIAL LENDING INSTITUTION(S) BY THE RECIPIENT COUNTRY. ADVANTAGES OF THE FFB ARE THAT IT PROVIDES A GOVERNMENT-TO-GOVERNMENT NEGOTIATING FRAMEWORK AND INTEREST RATES APPROXIMATELY THE COST OF MONEY TO THE USG; I.E., RATES APPRECIABLY LOWER THAN THOSE AVAILABLE IN THE COMMERCIAL MARKET.

4. THE DEPARTMENT IS INFORMING THE ISRAELI EMBASSY THAT THE \$300 MILLION IN FMS CREDITS AND GUARANTIES HAS BEEN APPROVED. THE EMBASSY WILL BE ASKED TO CONTACT TREASURY REPRESENTATIVES FOR A BRIEFING ON STEPS NECESSARY TO NEGOTIATE BOTH PARTS OF THE PACKAGE.

5. YOU MAY INFORM APPROPRIATE GOI OFFICIALS OF THE ABOVE.
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NNN

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